



Enhancing Corporate Governance in the Arab World

Quarterly Programmatic Report April – June 2005

Under Leader Award No. GEG-A-00-01-00005-00

Submitted by Pact on behalf of the
Center for International Private Enterprise (CIPE)

As indicated in the corresponding quarterly financial report, the total amount expensed under this sub-award to date is \$268,213.18. This figure accurately represents amounts reported to Pact for the period ending June 30, 2005.

I. Executive Summary

During this quarter, CIPE carried out several MEPI-sponsored activities, in coordination with its network partners, including completion of the Egyptian Corporate Governance Code, initiation of the Union of Arab Banks survey, identification of a partner to conduct a regional corporate governance survey, and publication of the latest issue of the *Corporate Governance Trends* newsletter.

In addition, CIPE has continued to work closely with the World Bank's Global Corporate Governance Forum, which played a key role in the national conferences in Morocco and Lebanon, and will play a key role in the upcoming corporate governance conference in September 2005 in Morocco.

II. Background

The *Enhancing Corporate Governance in the Arab World* project engages the private sectors in Egypt, Jordan, Lebanon, Morocco, and Bahrain to improve the corporate governance environment in their countries and the region.

Corporate governance ultimately depends on public-private sector cooperation to create a competitive market system within a law-based democratic society. Adoption of sound corporate governance principles creates safeguards against corruption and mismanagement while promoting transparency in economic life and fighting institutional resistance to reform.

Corporate governance addresses the issue of modernization of the Arab world by looking at economic and business structures that would enhance the private sector's competitiveness, make the region more conducive for foreign direct investment, and better integrate the region into the global marketplace.

CIPE is working with grantees in Lebanon, Morocco, Jordan, Egypt, and other countries in the Gulf to bring international best practices on corporate governance to the region, to foster country and regional discussions on how to build corporate governance mechanisms in the Arab world, and to support private sector-driven corporate governance initiatives.

III. Key Results this Period

Regional activities

Regional Survey

CIPE identified a regional association—the Arab Federation of Certified Public Accountants—to conduct a firm-level survey of listed firms. The AFCPA, a non-profit organization established in April 2000, will conduct a survey on Corporate Governance to measure its application within publicly listed firms in the MENA region, with collaboration from local business associations in Lebanon, Egypt, Jordan, Qatar and Morocco.

The survey builds on previous survey developed by a CIPE Turkish partner, Corporate Governance Forum of Turkey, that looks at the level of transparency and accountability in firms

from the perspective of foreign investors. This survey also builds on the recommendations from the regional program held in Lebanon in 2004 that looked at improving transparency and accountability among Arab firms.

Economic Journalist Training

CIPE identified an association that will provide a training program for economic journalists in the Gulf. The Bahrain Transparency Association (BTS) will organize a 5-day training workshop to train 25 economic and financial journalists from the MENA region. The workshop will cover a number of topics related to Corporate Governance reporting. It will also enable the participants to learn new reporting techniques. Journalists will gain a deeper understanding of the economy and the business. Additionally, they will develop the necessary skills to write relevant, balanced, and precise coverage. The training program will take place in November 2005.

Communications and Outreach

The MEPI-sponsored website on Corporate Governance in the MENA region is now accessible at www.hawkama.net. The website features conference materials, articles and information on CIPE's regional corporate governance initiatives.

During this quarter the total number of hits increased to 152,272 compared to 121,515 hits in the last quarter. The number of unique visitors is 9112, an increase of 8% since the last quarter. Also, 386 visitors bookmarked the website, an increase of 30% compared to the last quarter. The total file downloads reached 15,889, marking an 8% increase since the last quarter. Most website visitors were from Egypt, Saudi Arabia, and Lebanon. The overall total hits increased by 20% since the last quarter.

Frequent search keywords were:

- Corporate Governance
- International Accounting Standards
- Corporate Governance Principles
- Accounting & Disclosure Standards
- Corporate Governance in the Middle East
- Family-Owned Companies
- Arab Banking Sector Governance
- Corporations Collapse
- Evaluating Corporate Governance Principles

Corporate Governance Trends Newsletter

The latest issue of the *Corporate Governance Trends* newsletter was released and distributed in June 2005.

Bahrain

Bahraini Bankers' Society Conference

CIPE chairman John Bohn participated in a conference in Bahrain organized by the Bahraini Bankers' Society. In his speech, he highlighted the issue of "insider trading" and discussed its

impact on the growth of the economy in the region. (See the appendices for a copy of Mr. Bohn's full speech.)

Egypt

Egyptian Corporate Governance Code

The Egyptian Corporate Governance Code was developed and presented to the private sector for public discussions. The Egyptian Corporate Governance Task Force team, headed by Attorney Dr. Ziad Bahaa El Din, spent nearly a year developing the code. This initiative addresses the need for good corporate governance for all listed and unlisted companies. The initiative independently created the first Code of Corporate Governance originally in Arabic and developed it locally.

The implementation process took the following steps:

1. Reviewing the best international practices and standards in the field of Corporate Governance.
2. Reviewing the current legal/regulatory framework for Corporate Governance in Egypt as well as the information available on the subject and research undertaken by various entities.
3. Determining the legal nature of the proposed Code, its subject matter and scope of application.
4. In February 2005, the Egyptian Code of Corporate Governance was drafted based on the results of the above-mentioned three tasks.
5. After developing the Code, CIPE organized a series of workshops, and discussions with various interested entities concerning the drafted Code, its effectiveness, relevance, and application.
6. CIPE conducted a survey to assess the different views on corporate governance practices, and opinions regarding the effectiveness of the code in addressing the faced challenges.
7. In light of the feedback, Dr. Bahaa El Din drafted a final text of the Code and submitted it to the Institute of Directors for final review and comments.

The final step—organizing a conference to launch the Code—will take place in September.

Jordan

Publication of *Corporate Governance in Jordan*

Al Urdun Al Jadid Research Center, with the support of the Center for International Private Enterprise through MEPI funds, published a book in Arabic: *Corporate Governance in Jordan*. Three thousand copies were distributed in Jordan. The book, comprised of 156 pages, consists of an introduction to the participants, a general introduction, and a presentation of the working papers of the forum.

The major topics were contained in four chapters and a number of annexes:

- First Chapter: “Current Studies on the State of Corporate Governance in Jordan”
- Second Chapter: “The National Agenda for Enhancing Corporate Governance in Jordan (government and shareholding companies)”

- Third Chapter: “The National Agenda for Enhancing Corporate Governance in Jordan (banks and insurance companies)”
- Fourth Chapter: Discussions and the recommendations from the forum.

Grants Program

In the previous quarter, CIPE signed grant agreements with the Union of Arab Banks, Moroccan Employers Federation, and the Lebanese Transparency Association for a series of follow-up activities to further consolidate corporate governance in the region.

The Union of Arab Banks (UAB) started their regional survey of banks in Egypt after the template was designed. UAB consulted with many international organizations and financial experts on adopting the template. This allowed creating a benchmark for international best practices.

The questionnaire was divided into six main categories:

1. General Framework for Good Corporate Governance- eleven questions
2. Rights of Shareholders - seven questions
3. Equitable Treatment of All Shareholders - sixteen questions
4. The Role of Stakeholders in Corporate Governance- four questions
5. Transparency- fifteen questions
6. Structure, Functioning and Responsibilities of the Board of Directors- twenty three questions

As part of their grant, the Moroccan Employers Federation (CGEM) had originally planned to organize workshops starting July 2005, but after polling their members on their availability CGEM realized that most of the key people are either on travel or on vacation. In order to maximize participation by the Moroccan private sector on their programming, CGEM informed CIPE that they would like to start the workshops in September 2005.

CIPE has received a proposal from the Jordanian Corporate Governance Association (JCGA) for consideration as part of the corporate governance grants program. CIPE staff is conductive due diligence on the organization. JCGA was established in July 2005, as a direct outcome of CIPE’s program in Jordan. A group of entrepreneurs announced the establishment of the Jordanian Corporate Governance Association.

The association is an independent, non-profit membership organization dedicated to working with investors, companies and regulators to implement effective corporate governance practices throughout Jordan. JCGA's scope covers three areas:

1. Research: Tracking corporate governance developments across eleven markets in Asia and producing independent analyses of new laws and regulations, investor activism and corporate practices.
2. Advocacy: Engaging in a constructive dialogue with governments, financial regulators and stock exchanges on practical issues affecting the implementation of better corporate governance practices in Asia.

3. Education: Organizing conferences and seminars that foster a deeper understanding of the competitive benefits of sound corporate governance and ways to implement it effectively.

Two of the establishing representatives are members of the media sector in Jordan. JCGA submitted a proposal to CIPE to conduct a field survey, and consult with public opinion to assess the challenges and opportunities of applying corporate governance at the domestic level. The proposal also included developing a website that contains a variety of resources to raise public awareness on corporate governance in the region and abroad. Moreover, a weekly article in the local newspapers (English and Arabic) will be published in order to raise awareness on Corporate Governance principles

IV. Comparison of Planned and Actual Accomplishments

Activities Planned for This Quarter	Original Timeline	Status
Submission of the Egyptian Corporate Governance Code	June 2004 - June 2005	Completed
Union of Arab Banks survey	April	Underway
Identify regional partner to conduct a regional corporate governance survey.	May	Completed
Morocco conference (part of the CGEM sub-grant)	July	Delayed
<i>Corporate Governance Trends</i> Newsletter	June	Completed
Participant selection for Magrahib economic journalist training program	June	Delayed

Morocco conference

As part of the sub-grant to CGEM advancing corporate governance in Morocco, CGEM was supposed to initiate a workshop series starting July 2005. However, because of vacation and travel schedules of some of their key private sector targets, CGEM informed CIPE that private sector participation would be maximized if these workshops were to start in September 2005 instead.

Magrahib economic journalist training program

The original plan was to organize a journalist training program in Morocco, as part of the corporate governance work plan. However, CIPE's local partner has been called upon to assist in organizing an upcoming OECD regional meeting on corporate governance in Morocco to be held in September. As a result neither CGEM nor any other partner has the staff time to prepare for a journalist training program. At around the same time CIPE received this news, the Bahraini Transparency Society (BTS) expressed an interest in organizing a journalist training program in the Gulf. BTS will use materials already developed by CIPE, in conjunction with Al Ahram Regional Press Institute and International Center for Journalists, focusing on corporate governance reporting. CIPE is exploring shifting the feasibility of shifting the training program from Morocco to Bahrain.

V. Activities Planned for Next Quarter

The following activities are planned for the next quarter:

Launch of the Egyptian Corporate Governance Code

The Egyptian Institute of Directors is planning a local event to launch the Egyptian Corporate Governance Code. The tentative date for the event is September 2005.

***Corporate Governance Trends* newsletter**

The next issue of the *Corporate Governance Trends* newsletter will be published in August.

Union of Arab Banks survey

The Union of Arab Banks (UAB) will complete the survey and prepare the third phase of the project. The third phase will aim to analyze the final results. The analysis will be conducted at both the local and regional levels through cross-country comparisons.

Arab Federation of Public Accountants survey

The Arab Federation of Public Accountants (AFCPA) survey will start the data collection phase of the firm level survey on corporate governance practices in September.

OECD-MENA Working Group

Following the 2nd Regional Corporate Governance Forum held in Lebanon in 2004, CIPE and its local partners have been actively working to keep the reform momentum going. They are also highlighting the regional advances on corporate governance in the various international reform discussions, including the G-8' Forum for the Future and the OECD/MENA Improving the Investment Climate and Governance program.

CIPE is particularly active in the Working Group of the OECD/MENA Program, which focuses on corporate governance. The next meeting of the Working Group is in September 2005, to be held in Morocco. CIPE sees this regional meeting as an opportunity to highlight the successes made by its partners and its MEPI sponsored corporate governance programs. CIPE plans to use this meeting as a platform to bring in its regional partners, expand the regional corporate governance network, highlight best practices, and gather feedback on future corporate governance programs.

The objectives of the OECD/MENA meeting are as follows:

1. To discuss the initial results of the survey on Corporate Governance frameworks in the region
2. To identify further steps needed in order to provide a draft for the MENA OECD Ministerial meeting scheduled in November 2005
3. To examine the progress achieved regarding the Corporate Governance output areas including: Corporate Governance of banks, Corporate Governance codes, Corporate Governance in non-listed companies, Corporate Governance in state-owned enterprises (SOEs), and awareness rising
4. To familiarize participants with the new OECD Guidelines on Corporate Governance of SOEs

5. To discuss the respective frameworks and practices in the MENA, reach conclusions relevant for the region, and agree on a future plan of work

As part of the CGEM subgrant, the first national workshop on corporate governance in Morocco will be held in September 2005. The objectives of this workshop are: raising awareness, promoting corporate governance culture, building consensus in favor of corporate governance reform, disseminating best corporate governance practices, and developing local capacity building

V. Success Stories/Lessons Learned

Egyptian Corporate Governance Code

On June 29, 2005, a seminar was organized by the Egypt Institute of Directors (EIOD) and the Minister of Investment Development H. E. Dr. Mahmoud Mohei El Din. The minister of investment and president of EIOD announced the release of Egypt's first Code of Corporate Governance.

Four hundred Egyptian participants attended, representing all Egyptian business associations, including: board members of listed public enterprises, financial institutions, government and joint venture banks, and major listed and non-listed family firm. Minister Mohei El Din expressed his appreciation to CIPE for supporting the development of the code, as part of the MEPI-funded project.

The initiative addressed the need for good corporate governance for all companies. More importantly, if successful, such an initiative would create a first-ever Code of Corporate Governance written in Arabic by and for the Egyptian private sector and developed locally--not translated from English or borrowed from another country. The Egyptian code will be used as a benchmark for similar private sector-driven initiatives in the region.

Corporate Governance in University Programs

During a ceremony held at the American University of Beirut in May, the first university program covering Corporate Governance in the Middle East was announced. The AUB started the Corporate Governance program as a direct outcome of CIPE's efforts and support.

The program is a 3-credit course as part of the MBA program. It will focus on legal accountability in conformity with corporate and securities disclosure laws, market for corporate control, the role of institutional investors, leveraged buyouts, hiring and firing strategies, management compensation packages, and the role of the board of directors in ensuring an appropriate accountability system and the integrity of financial reporting.